

## Message Text

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ORIGIN XMB-07

INFO OCT-01 EUR-25 ADP-00 EB-11 COME-00 TRSE-00 FRB-02

OPIC-12 AID-20 CIAE-00 INR-10 NSAE-00 RSC-01 SSO-00

INRE-00 /089 R

66610

DRAFTED BY: XMB: DBOSTWICK

APPROVED BY: EB/ OCA/ REP: GPWILSON

EB/ IFD/ ODF: EMLINTON

EUR/ IB: HYMCOWN

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O 312117 Z MAY 73

FM SECSTATE WASHDC

TO AMEMBASSY MADRID IMMEDIATE

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E. O. 11652: NA

TAGS: EGEN

SUBJ: SAGUNTO STEEL MIL PROJECT

REF: STATE 101546 MADRID 2951

EXIMBANK APPRECIATES EMBASSY'S CONTINUING SURVEILLANCE AND  
TIMELY REPORTING ON SUBJECT PROJECT. EMBASSY SHOULD BE  
AWARE OF THE FOLLOWING FOR ITS OWN INFORMATION AND FOR WHAT  
USE IT DESIRES TO MAKE OF THIS INFORMATION:

1. EXIMBANK, WITHOUT FIRM EVIDENCE THAT OTHER GOVERNMENT-  
SUPPORTED EXPORT CREDIT AGENCIES ACTUALLY WERE PREPARED TO  
FINANCE THE SUBJECT TRANSACTION WITHOUT A THIRD- PARTY GUARAN-  
TEE, AGREED TO SUPPORT U. S. EXPORT SALES FOR THE PROJECT  
SOLELY ON THE BASIS OF AN AHM OBLIGATION ACCOMPANIED BY CER-  
TAIN COVENANTS WHICH EXIMBANK'S JUDGEMENT ARE NECESSARY TO  
ACHIEVE THE REASONABLE ASSURANCE OF REPAYMENT REQUIRED BY THE  
BANK'S STATUTES. AHM AND THE EMBASSY WERE INFORMED OF THIS  
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CHANGE IN EXIMBANK'S POSITION ON MAY 24, 1973.

2. THE COVENANTS EXIMBANK WILL REQUIRE ARE NECESSARY, AND, AT THE SAME TIME, ARE REASONABLE. (A) EXIMBANK PROPOSES THAT NO OTHER CREDITOR ON THE PROJECT HAS OR WILL BE GIVEN A SUPERIOR POSITION OR SECURITY. THIS NORMAL COVENANT IS PARTICULARLY EQUITABLE IN VIEW OF AHM'S ALLEGATIONS THAT NO OTHER CREDITOR IS ASKING FOR SECURITY IN EXCESS OF THAT PROPOSED BY EXIMBANK. (B) EXIMBANK PROPOSES THAT THE GOVERNMENT OF SPAIN AGREE NOT TO ACCEPT PAYMENT ON ITS LOANS TO AHM IN THE EVENT AHM IS IN DEFAULT ON ITS LOANS TO EXIMBANK. THIS NORMAL COVENANT ALSO IS PARTICULARLY EQUITABLE IN VIEW OF THE HIGH NATIONAL PRIORITY THE GOVERNMENT ATTACHES TO THE SUCCESS OF THE PROJECT AND CONCOMITANT RELUCTANCE TO OFFER A GOVERNMENT GUARANTEE.

3. AS A RESULT OF A TELEX RECEIVED FROM JUAN MIGUEL VILLAR MIR, CHAIRMAN OF THE BOARD OF DIRECTORS OF AHM, ON MAY 29, 1973, IN WHICH HE STATED EXIMBANK'S PROPOSED COVENANTS WERE UNACCEPTABLE TO AHM, AND THE TELEPHONE CALL AND CABLE RECEIVED FROM THE EMBASSY ON THE SAME DATE, EXIMBANK INITIATED A COMPLETE RE-AUDIT OF THE FINANCIAL DATA SUBMITTED BY AHM FOR THE PURPOSE OF DETERMINING IF REASONABLE ASSURANCE OF REPAYMENT COULD BE FOUND IN THE ABSENCE OF THE COVENANTS CITED ABOVE. THIS RE-AUDIT RECONFIRMED EXIMBANK'S PREVIOUS POSITION. SUCH COVENANTS AS A SEVERE DIVIDEND RESTRICTION OR A REQUIREMENT FOR INCREASED EQUITY PARTICIPATION WOULD BE SATISFACTORY SUBSTITUTES FOR THE COVENANTS EXIMBANK PROPOSES, BUT BOTH WOULD BE MORE ONEROUS TO THE PROJECT SPONSORS.

4. ALSO AS A RESULT OF THE AHM AND EMBASSY COMMUNICATION OF MAY 29, 1973, EXIMBANK CONTACTED BY TELEPHONE OTHER EXPORT CREDIT AGENCIES TO DETERMINE THEIR MOST RECENT POSITIONS. EACH QUESTIONED THE CREDIT WORTHINESS OF THE PROJECT. WE HAVE DETERMINED THAT MOST CREDIT AGENCIES WILL REQUIRE A THIRD PARTY GUARANTEE OR OTHER RESTRICTIVE COVENANT. ONE EXCEPTION HAS AGREED TO SUPPORT THE TRANSACTION WITHOUT A GUARANTEE OR COVENANT, BUT HAS GREATLY REDUCED THE COVER IT IS EXTENDING TO THE EXPORTER, LEAVING THE EXPORTER WITH THE BULK OF THE COMMERCIAL RISK. U. S. EXPORTERS ARE NOT PREPARED TO ASSUME A MAJOR PORTION OF THE COMMERCIAL RISKS.

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5. WITH THIS BACKGROUND, EXIMBANK MUST ADHERE TO THE PROPOSAL IT FORWARDED TO AHM AND THE EMBASSY ON MAY 24, 1973.  
RUSH

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NNNNMAFVVZCZ

\*\*\* Current Handling Restrictions \*\*\* n/a

\*\*\* Current Classification \*\*\* LIMITED OFFICIAL USE

## Message Attributes

**Automatic Decaptioning:** X  
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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
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**Draft Date:** 31 MAY 1973  
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**Secure:** OPEN  
**Status:** <DBA CORRECTED> mcm 980306  
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**TAGS:** EGEN, EGEN  
**To:** MADRID  
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